

1 AN ACT concerning taxes.

2 Be it enacted by the People of the State of Illinois,
3 represented in the General Assembly:

4 Section 5. The Illinois Income Tax Act is amended by
5 changing Section 203 as follows:

6 (35 ILCS 5/203) (from Ch. 120, par. 2-203)
7 Sec. 203. Base income defined.

8 (a) Individuals.

9 (1) In general. In the case of an individual, base
10 income means an amount equal to the taxpayer's adjusted
11 gross income for the taxable year as modified by
12 paragraph (2).

13 (2) Modifications. The adjusted gross income
14 referred to in paragraph (1) shall be modified by adding
15 thereto the sum of the following amounts:

16 (A) An amount equal to all amounts paid or
17 accrued to the taxpayer as interest or dividends
18 during the taxable year to the extent excluded from
19 gross income in the computation of adjusted gross
20 income, except stock dividends of qualified public
21 utilities described in Section 305(e) of the
22 Internal Revenue Code;

23 (B) An amount equal to the amount of tax
24 imposed by this Act to the extent deducted from
25 gross income in the computation of adjusted gross
26 income for the taxable year;

27 (C) An amount equal to the amount received
28 during the taxable year as a recovery or refund of
29 real property taxes paid with respect to the
30 taxpayer's principal residence under the Revenue Act
31 of 1939 and for which a deduction was previously

1 taken under subparagraph (L) of this paragraph (2)
2 prior to July 1, 1991, the retrospective application
3 date of Article 4 of Public Act 87-17. In the case
4 of multi-unit or multi-use structures and farm
5 dwellings, the taxes on the taxpayer's principal
6 residence shall be that portion of the total taxes
7 for the entire property which is attributable to
8 such principal residence;

9 (D) An amount equal to the amount of the
10 capital gain deduction allowable under the Internal
11 Revenue Code, to the extent deducted from gross
12 income in the computation of adjusted gross income;

13 (D-5) An amount, to the extent not included in
14 adjusted gross income, equal to the amount of money
15 withdrawn by the taxpayer in the taxable year from a
16 medical care savings account and the interest earned
17 on the account in the taxable year of a withdrawal
18 pursuant to subsection (b) of Section 20 of the
19 Medical Care Savings Account Act or subsection (b)
20 of Section 20 of the Medical Care Savings Account
21 Act of 2000; and

22 (D-10) For taxable years ending after December
23 31, 1997, an amount equal to any eligible
24 remediation costs that the individual deducted in
25 computing adjusted gross income and for which the
26 individual claims a credit under subsection (1) of
27 Section 201;

28 and by deducting from the total so obtained the sum of
29 the following amounts:

30 (E) Any amount included in such total in
31 respect of any compensation (including but not
32 limited to any compensation paid or accrued to a
33 serviceman while a prisoner of war or missing in
34 action) paid to a resident by reason of being on

1 active duty in the Armed Forces of the United States
2 and in respect of any compensation paid or accrued
3 to a resident who as a governmental employee was a
4 prisoner of war or missing in action, and in respect
5 of any compensation paid to a resident in 1971 or
6 thereafter for annual training performed pursuant to
7 Sections 502 and 503, Title 32, United States Code
8 as a member of the Illinois National Guard;

9 (F) An amount equal to all amounts included in
10 such total pursuant to the provisions of Sections
11 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and
12 408 of the Internal Revenue Code, or included in
13 such total as distributions under the provisions of
14 any retirement or disability plan for employees of
15 any governmental agency or unit, or retirement
16 payments to retired partners, which payments are
17 excluded in computing net earnings from self
18 employment by Section 1402 of the Internal Revenue
19 Code and regulations adopted pursuant thereto;

20 (G) The valuation limitation amount;

21 (H) An amount equal to the amount of any tax
22 imposed by this Act which was refunded to the
23 taxpayer and included in such total for the taxable
24 year;

25 (I) An amount equal to all amounts included in
26 such total pursuant to the provisions of Section 111
27 of the Internal Revenue Code as a recovery of items
28 previously deducted from adjusted gross income in
29 the computation of taxable income;

30 (J) An amount equal to those dividends
31 included in such total which were paid by a
32 corporation which conducts business operations in an
33 Enterprise Zone or zones created under the Illinois
34 Enterprise Zone Act, and conducts substantially all

1 of its operations in an Enterprise Zone or zones;

2 (K) An amount equal to those dividends
3 included in such total that were paid by a
4 corporation that conducts business operations in a
5 federally designated Foreign Trade Zone or Sub-Zone
6 and that is designated a High Impact Business
7 located in Illinois; provided that dividends
8 eligible for the deduction provided in subparagraph
9 (J) of paragraph (2) of this subsection shall not be
10 eligible for the deduction provided under this
11 subparagraph (K);

12 (L) For taxable years ending after December
13 31, 1983, an amount equal to all social security
14 benefits and railroad retirement benefits included
15 in such total pursuant to Sections 72(r) and 86 of
16 the Internal Revenue Code;

17 (M) With the exception of any amounts
18 subtracted under subparagraph (N), an amount equal
19 to the sum of all amounts disallowed as deductions
20 by (i) Sections 171(a) (2), and 265(2) of the
21 Internal Revenue Code of 1954, as now or hereafter
22 amended, and all amounts of expenses allocable to
23 interest and disallowed as deductions by Section
24 265(1) of the Internal Revenue Code of 1954, as now
25 or hereafter amended; and (ii) for taxable years
26 ending on or after August 13, 1999, Sections
27 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the
28 Internal Revenue Code; the provisions of this
29 subparagraph are exempt from the provisions of
30 Section 250;

31 (N) An amount equal to all amounts included in
32 such total which are exempt from taxation by this
33 State either by reason of its statutes or
34 Constitution or by reason of the Constitution,

1 treaties or statutes of the United States; provided
2 that, in the case of any statute of this State that
3 exempts income derived from bonds or other
4 obligations from the tax imposed under this Act, the
5 amount exempted shall be the interest net of bond
6 premium amortization;

7 (O) An amount equal to any contribution made
8 to a job training project established pursuant to
9 the Tax Increment Allocation Redevelopment Act;

10 (P) An amount equal to the amount of the
11 deduction used to compute the federal income tax
12 credit for restoration of substantial amounts held
13 under claim of right for the taxable year pursuant
14 to Section 1341 of the Internal Revenue Code of
15 1986;

16 (Q) An amount equal to any amounts included in
17 such total, received by the taxpayer as an
18 acceleration in the payment of life, endowment or
19 annuity benefits in advance of the time they would
20 otherwise be payable as an indemnity for a terminal
21 illness;

22 (R) An amount equal to the amount of any
23 federal or State bonus paid to veterans of the
24 Persian Gulf War;

25 (S) An amount, to the extent included in
26 adjusted gross income, equal to the amount of a
27 contribution made in the taxable year on behalf of
28 the taxpayer to a medical care savings account
29 established under the Medical Care Savings Account
30 Act or the Medical Care Savings Account Act of 2000
31 to the extent the contribution is accepted by the
32 account administrator as provided in that Act;

33 (T) An amount, to the extent included in
34 adjusted gross income, equal to the amount of

1 interest earned in the taxable year on a medical
2 care savings account established under the Medical
3 Care Savings Account Act or the Medical Care Savings
4 Account Act of 2000 on behalf of the taxpayer, other
5 than interest added pursuant to item (D-5) of this
6 paragraph (2);

7 (U) For one taxable year beginning on or after
8 January 1, 1994, an amount equal to the total amount
9 of tax imposed and paid under subsections (a) and
10 (b) of Section 201 of this Act on grant amounts
11 received by the taxpayer under the Nursing Home
12 Grant Assistance Act during the taxpayer's taxable
13 years 1992 and 1993;

14 (V) Beginning with tax years ending on or
15 after December 31, 1995 and ending with tax years
16 ending on or before December 31, 2004, an amount
17 equal to the amount paid by a taxpayer who is a
18 self-employed taxpayer, a partner of a partnership,
19 or a shareholder in a Subchapter S corporation for
20 health insurance or long-term care insurance for
21 that taxpayer or that taxpayer's spouse or
22 dependents, to the extent that the amount paid for
23 that health insurance or long-term care insurance
24 may be deducted under Section 213 of the Internal
25 Revenue Code of 1986, has not been deducted on the
26 federal income tax return of the taxpayer, and does
27 not exceed the taxable income attributable to that
28 taxpayer's income, self-employment income, or
29 Subchapter S corporation income; except that no
30 deduction shall be allowed under this item (V) if
31 the taxpayer is eligible to participate in any
32 health insurance or long-term care insurance plan of
33 an employer of the taxpayer or the taxpayer's
34 spouse. The amount of the health insurance and

1 long-term care insurance subtracted under this item
2 (V) shall be determined by multiplying total health
3 insurance and long-term care insurance premiums paid
4 by the taxpayer times a number that represents the
5 fractional percentage of eligible medical expenses
6 under Section 213 of the Internal Revenue Code of
7 1986 not actually deducted on the taxpayer's federal
8 income tax return;

9 (W) For taxable years beginning on or after
10 January 1, 1998, all amounts included in the
11 taxpayer's federal gross income in the taxable year
12 from amounts converted from a regular IRA to a Roth
13 IRA. This paragraph is exempt from the provisions of
14 Section 250; and

15 (X) For taxable year 1999 and thereafter, an
16 amount equal to the amount of any (i) distributions,
17 to the extent includible in gross income for federal
18 income tax purposes, made to the taxpayer because of
19 his or her status as a victim of persecution for
20 racial or religious reasons by Nazi Germany or any
21 other Axis regime or as an heir of the victim and
22 (ii) items of income, to the extent includible in
23 gross income for federal income tax purposes,
24 attributable to, derived from or in any way related
25 to assets stolen from, hidden from, or otherwise
26 lost to a victim of persecution for racial or
27 religious reasons by Nazi Germany or any other Axis
28 regime immediately prior to, during, and immediately
29 after World War II, including, but not limited to,
30 interest on the proceeds receivable as insurance
31 under policies issued to a victim of persecution for
32 racial or religious reasons by Nazi Germany or any
33 other Axis regime by European insurance companies
34 immediately prior to and during World War II;

1 provided, however, this subtraction from federal
2 adjusted gross income does not apply to assets
3 acquired with such assets or with the proceeds from
4 the sale of such assets; provided, further, this
5 paragraph shall only apply to a taxpayer who was the
6 first recipient of such assets after their recovery
7 and who is a victim of persecution for racial or
8 religious reasons by Nazi Germany or any other Axis
9 regime or as an heir of the victim. The amount of
10 and the eligibility for any public assistance,
11 benefit, or similar entitlement is not affected by
12 the inclusion of items (i) and (ii) of this
13 paragraph in gross income for federal income tax
14 purposes. This paragraph is exempt from the
15 provisions of Section 250.; and

16 (Y) For taxable years ending on or after
17 December 31, 2001, an amount equal to the medical,
18 dental, and other expenses allowed as a deduction
19 under Section 213 of the Internal Revenue Code to
20 the extent allowed as a deduction from adjusted
21 gross income in computing federal income taxes. To
22 obtain this subtraction modification, the taxpayer
23 must submit to the Department, along with his or her
24 tax return, a copy of the Schedule A form or any
25 successor form completed and submitted for federal
26 income tax purposes. This paragraph is exempt from
27 the provisions of Section 250.

28 (b) Corporations.

29 (1) In general. In the case of a corporation, base
30 income means an amount equal to the taxpayer's taxable
31 income for the taxable year as modified by paragraph (2).

32 (2) Modifications. The taxable income referred to
33 in paragraph (1) shall be modified by adding thereto the
34 sum of the following amounts:

1 (A) An amount equal to all amounts paid or
2 accrued to the taxpayer as interest and all
3 distributions received from regulated investment
4 companies during the taxable year to the extent
5 excluded from gross income in the computation of
6 taxable income;

7 (B) An amount equal to the amount of tax
8 imposed by this Act to the extent deducted from
9 gross income in the computation of taxable income
10 for the taxable year;

11 (C) In the case of a regulated investment
12 company, an amount equal to the excess of (i) the
13 net long-term capital gain for the taxable year,
14 over (ii) the amount of the capital gain dividends
15 designated as such in accordance with Section
16 852(b)(3)(C) of the Internal Revenue Code and any
17 amount designated under Section 852(b)(3)(D) of the
18 Internal Revenue Code, attributable to the taxable
19 year (this amendatory Act of 1995 (Public Act 89-89)
20 is declarative of existing law and is not a new
21 enactment);

22 (D) The amount of any net operating loss
23 deduction taken in arriving at taxable income, other
24 than a net operating loss carried forward from a
25 taxable year ending prior to December 31, 1986;

26 (E) For taxable years in which a net operating
27 loss carryback or carryforward from a taxable year
28 ending prior to December 31, 1986 is an element of
29 taxable income under paragraph (1) of subsection (e)
30 or subparagraph (E) of paragraph (2) of subsection
31 (e), the amount by which addition modifications
32 other than those provided by this subparagraph (E)
33 exceeded subtraction modifications in such earlier
34 taxable year, with the following limitations applied

1 in the order that they are listed:

2 (i) the addition modification relating to
3 the net operating loss carried back or forward
4 to the taxable year from any taxable year
5 ending prior to December 31, 1986 shall be
6 reduced by the amount of addition modification
7 under this subparagraph (E) which related to
8 that net operating loss and which was taken
9 into account in calculating the base income of
10 an earlier taxable year, and

11 (ii) the addition modification relating
12 to the net operating loss carried back or
13 forward to the taxable year from any taxable
14 year ending prior to December 31, 1986 shall
15 not exceed the amount of such carryback or
16 carryforward;

17 For taxable years in which there is a net
18 operating loss carryback or carryforward from more
19 than one other taxable year ending prior to December
20 31, 1986, the addition modification provided in this
21 subparagraph (E) shall be the sum of the amounts
22 computed independently under the preceding
23 provisions of this subparagraph (E) for each such
24 taxable year; and

25 (E-5) For taxable years ending after December
26 31, 1997, an amount equal to any eligible
27 remediation costs that the corporation deducted in
28 computing adjusted gross income and for which the
29 corporation claims a credit under subsection (l) of
30 Section 201;

31 and by deducting from the total so obtained the sum of
32 the following amounts:

33 (F) An amount equal to the amount of any tax
34 imposed by this Act which was refunded to the

1 taxpayer and included in such total for the taxable
2 year;

3 (G) An amount equal to any amount included in
4 such total under Section 78 of the Internal Revenue
5 Code;

6 (H) In the case of a regulated investment
7 company, an amount equal to the amount of exempt
8 interest dividends as defined in subsection (b) (5)
9 of Section 852 of the Internal Revenue Code, paid to
10 shareholders for the taxable year;

11 (I) With the exception of any amounts
12 subtracted under subparagraph (J), an amount equal
13 to the sum of all amounts disallowed as deductions
14 by (i) Sections 171(a) (2), and 265(a)(2) and
15 amounts disallowed as interest expense by Section
16 291(a)(3) of the Internal Revenue Code, as now or
17 hereafter amended, and all amounts of expenses
18 allocable to interest and disallowed as deductions
19 by Section 265(a)(1) of the Internal Revenue Code,
20 as now or hereafter amended; and (ii) for taxable
21 years ending on or after August 13, 1999, Sections
22 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)
23 of the Internal Revenue Code; the provisions of this
24 subparagraph are exempt from the provisions of
25 Section 250;

26 (J) An amount equal to all amounts included in
27 such total which are exempt from taxation by this
28 State either by reason of its statutes or
29 Constitution or by reason of the Constitution,
30 treaties or statutes of the United States; provided
31 that, in the case of any statute of this State that
32 exempts income derived from bonds or other
33 obligations from the tax imposed under this Act, the
34 amount exempted shall be the interest net of bond

1 premium amortization;

2 (K) An amount equal to those dividends
3 included in such total which were paid by a
4 corporation which conducts business operations in an
5 Enterprise Zone or zones created under the Illinois
6 Enterprise Zone Act and conducts substantially all
7 of its operations in an Enterprise Zone or zones;

8 (L) An amount equal to those dividends
9 included in such total that were paid by a
10 corporation that conducts business operations in a
11 federally designated Foreign Trade Zone or Sub-Zone
12 and that is designated a High Impact Business
13 located in Illinois; provided that dividends
14 eligible for the deduction provided in subparagraph
15 (K) of paragraph 2 of this subsection shall not be
16 eligible for the deduction provided under this
17 subparagraph (L);

18 (M) For any taxpayer that is a financial
19 organization within the meaning of Section 304(c) of
20 this Act, an amount included in such total as
21 interest income from a loan or loans made by such
22 taxpayer to a borrower, to the extent that such a
23 loan is secured by property which is eligible for
24 the Enterprise Zone Investment Credit. To determine
25 the portion of a loan or loans that is secured by
26 property eligible for a Section 201(f) ~~201(h)~~
27 investment credit to the borrower, the entire
28 principal amount of the loan or loans between the
29 taxpayer and the borrower should be divided into the
30 basis of the Section 201(f) ~~201(h)~~ investment credit
31 property which secures the loan or loans, using for
32 this purpose the original basis of such property on
33 the date that it was placed in service in the
34 Enterprise Zone. The subtraction modification

1 available to taxpayer in any year under this
2 subsection shall be that portion of the total
3 interest paid by the borrower with respect to such
4 loan attributable to the eligible property as
5 calculated under the previous sentence;

6 (M-1) For any taxpayer that is a financial
7 organization within the meaning of Section 304(c) of
8 this Act, an amount included in such total as
9 interest income from a loan or loans made by such
10 taxpayer to a borrower, to the extent that such a
11 loan is secured by property which is eligible for
12 the High Impact Business Investment Credit. To
13 determine the portion of a loan or loans that is
14 secured by property eligible for a Section 201(h)
15 ~~201(i)~~ investment credit to the borrower, the entire
16 principal amount of the loan or loans between the
17 taxpayer and the borrower should be divided into the
18 basis of the Section 201(h) ~~201(i)~~ investment credit
19 property which secures the loan or loans, using for
20 this purpose the original basis of such property on
21 the date that it was placed in service in a
22 federally designated Foreign Trade Zone or Sub-Zone
23 located in Illinois. No taxpayer that is eligible
24 for the deduction provided in subparagraph (M) of
25 paragraph (2) of this subsection shall be eligible
26 for the deduction provided under this subparagraph
27 (M-1). The subtraction modification available to
28 taxpayers in any year under this subsection shall be
29 that portion of the total interest paid by the
30 borrower with respect to such loan attributable to
31 the eligible property as calculated under the
32 previous sentence;

33 (N) Two times any contribution made during the
34 taxable year to a designated zone organization to

1 the extent that the contribution (i) qualifies as a
2 charitable contribution under subsection (c) of
3 Section 170 of the Internal Revenue Code and (ii)
4 must, by its terms, be used for a project approved
5 by the Department of Commerce and Community Affairs
6 under Section 11 of the Illinois Enterprise Zone
7 Act;

8 (O) An amount equal to: (i) 85% for taxable
9 years ending on or before December 31, 1992, or, a
10 percentage equal to the percentage allowable under
11 Section 243(a)(1) of the Internal Revenue Code of
12 1986 for taxable years ending after December 31,
13 1992, of the amount by which dividends included in
14 taxable income and received from a corporation that
15 is not created or organized under the laws of the
16 United States or any state or political subdivision
17 thereof, including, for taxable years ending on or
18 after December 31, 1988, dividends received or
19 deemed received or paid or deemed paid under
20 Sections 951 through 964 of the Internal Revenue
21 Code, exceed the amount of the modification provided
22 under subparagraph (G) of paragraph (2) of this
23 subsection (b) which is related to such dividends;
24 plus (ii) 100% of the amount by which dividends,
25 included in taxable income and received, including,
26 for taxable years ending on or after December 31,
27 1988, dividends received or deemed received or paid
28 or deemed paid under Sections 951 through 964 of the
29 Internal Revenue Code, from any such corporation
30 specified in clause (i) that would but for the
31 provisions of Section 1504 (b) (3) of the Internal
32 Revenue Code be treated as a member of the
33 affiliated group which includes the dividend
34 recipient, exceed the amount of the modification

1 provided under subparagraph (G) of paragraph (2) of
2 this subsection (b) which is related to such
3 dividends;

4 (P) An amount equal to any contribution made
5 to a job training project established pursuant to
6 the Tax Increment Allocation Redevelopment Act;

7 (Q) An amount equal to the amount of the
8 deduction used to compute the federal income tax
9 credit for restoration of substantial amounts held
10 under claim of right for the taxable year pursuant
11 to Section 1341 of the Internal Revenue Code of
12 1986;

13 (R) In the case of an attorney-in-fact with
14 respect to whom an interinsurer or a reciprocal
15 insurer has made the election under Section 835 of
16 the Internal Revenue Code, 26 U.S.C. 835, an amount
17 equal to the excess, if any, of the amounts paid or
18 incurred by that interinsurer or reciprocal insurer
19 in the taxable year to the attorney-in-fact over the
20 deduction allowed to that interinsurer or reciprocal
21 insurer with respect to the attorney-in-fact under
22 Section 835(b) of the Internal Revenue Code for the
23 taxable year; and

24 (S) For taxable years ending on or after
25 December 31, 1997, in the case of a Subchapter S
26 corporation, an amount equal to all amounts of
27 income allocable to a shareholder subject to the
28 Personal Property Tax Replacement Income Tax imposed
29 by subsections (c) and (d) of Section 201 of this
30 Act, including amounts allocable to organizations
31 exempt from federal income tax by reason of Section
32 501(a) of the Internal Revenue Code. This
33 subparagraph (S) is exempt from the provisions of
34 Section 250.

1 (3) Special rule. For purposes of paragraph (2)
2 (A), "gross income" in the case of a life insurance
3 company, for tax years ending on and after December 31,
4 1994, shall mean the gross investment income for the
5 taxable year.

6 (c) Trusts and estates.

7 (1) In general. In the case of a trust or estate,
8 base income means an amount equal to the taxpayer's
9 taxable income for the taxable year as modified by
10 paragraph (2).

11 (2) Modifications. Subject to the provisions of
12 paragraph (3), the taxable income referred to in
13 paragraph (1) shall be modified by adding thereto the sum
14 of the following amounts:

15 (A) An amount equal to all amounts paid or
16 accrued to the taxpayer as interest or dividends
17 during the taxable year to the extent excluded from
18 gross income in the computation of taxable income;

19 (B) In the case of (i) an estate, \$600; (ii) a
20 trust which, under its governing instrument, is
21 required to distribute all of its income currently,
22 \$300; and (iii) any other trust, \$100, but in each
23 such case, only to the extent such amount was
24 deducted in the computation of taxable income;

25 (C) An amount equal to the amount of tax
26 imposed by this Act to the extent deducted from
27 gross income in the computation of taxable income
28 for the taxable year;

29 (D) The amount of any net operating loss
30 deduction taken in arriving at taxable income, other
31 than a net operating loss carried forward from a
32 taxable year ending prior to December 31, 1986;

33 (E) For taxable years in which a net operating
34 loss carryback or carryforward from a taxable year

1 ending prior to December 31, 1986 is an element of
2 taxable income under paragraph (1) of subsection (e)
3 or subparagraph (E) of paragraph (2) of subsection
4 (e), the amount by which addition modifications
5 other than those provided by this subparagraph (E)
6 exceeded subtraction modifications in such taxable
7 year, with the following limitations applied in the
8 order that they are listed:

9 (i) the addition modification relating to
10 the net operating loss carried back or forward
11 to the taxable year from any taxable year
12 ending prior to December 31, 1986 shall be
13 reduced by the amount of addition modification
14 under this subparagraph (E) which related to
15 that net operating loss and which was taken
16 into account in calculating the base income of
17 an earlier taxable year, and

18 (ii) the addition modification relating
19 to the net operating loss carried back or
20 forward to the taxable year from any taxable
21 year ending prior to December 31, 1986 shall
22 not exceed the amount of such carryback or
23 carryforward;

24 For taxable years in which there is a net
25 operating loss carryback or carryforward from more
26 than one other taxable year ending prior to December
27 31, 1986, the addition modification provided in this
28 subparagraph (E) shall be the sum of the amounts
29 computed independently under the preceding
30 provisions of this subparagraph (E) for each such
31 taxable year;

32 (F) For taxable years ending on or after
33 January 1, 1989, an amount equal to the tax deducted
34 pursuant to Section 164 of the Internal Revenue Code

1 if the trust or estate is claiming the same tax for
2 purposes of the Illinois foreign tax credit under
3 Section 601 of this Act;

4 (G) An amount equal to the amount of the
5 capital gain deduction allowable under the Internal
6 Revenue Code, to the extent deducted from gross
7 income in the computation of taxable income; and

8 (G-5) For taxable years ending after December
9 31, 1997, an amount equal to any eligible
10 remediation costs that the trust or estate deducted
11 in computing adjusted gross income and for which the
12 trust or estate claims a credit under subsection (l)
13 of Section 201;

14 and by deducting from the total so obtained the sum of
15 the following amounts:

16 (H) An amount equal to all amounts included in
17 such total pursuant to the provisions of Sections
18 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and
19 408 of the Internal Revenue Code or included in such
20 total as distributions under the provisions of any
21 retirement or disability plan for employees of any
22 governmental agency or unit, or retirement payments
23 to retired partners, which payments are excluded in
24 computing net earnings from self employment by
25 Section 1402 of the Internal Revenue Code and
26 regulations adopted pursuant thereto;

27 (I) The valuation limitation amount;

28 (J) An amount equal to the amount of any tax
29 imposed by this Act which was refunded to the
30 taxpayer and included in such total for the taxable
31 year;

32 (K) An amount equal to all amounts included in
33 taxable income as modified by subparagraphs (A),
34 (B), (C), (D), (E), (F) and (G) which are exempt

1 from taxation by this State either by reason of its
2 statutes or Constitution or by reason of the
3 Constitution, treaties or statutes of the United
4 States; provided that, in the case of any statute of
5 this State that exempts income derived from bonds or
6 other obligations from the tax imposed under this
7 Act, the amount exempted shall be the interest net
8 of bond premium amortization;

9 (L) With the exception of any amounts
10 subtracted under subparagraph (K), an amount equal
11 to the sum of all amounts disallowed as deductions
12 by (i) Sections 171(a) (2) and 265(a)(2) of the
13 Internal Revenue Code, as now or hereafter amended,
14 and all amounts of expenses allocable to interest
15 and disallowed as deductions by Section 265(1) of
16 the Internal Revenue Code of 1954, as now or
17 hereafter amended; and (ii) for taxable years ending
18 on or after August 13, 1999, Sections 171(a)(2),
19 265, 280C, and 832(b)(5)(B)(i) of the Internal
20 Revenue Code; the provisions of this subparagraph
21 are exempt from the provisions of Section 250;

22 (M) An amount equal to those dividends
23 included in such total which were paid by a
24 corporation which conducts business operations in an
25 Enterprise Zone or zones created under the Illinois
26 Enterprise Zone Act and conducts substantially all
27 of its operations in an Enterprise Zone or Zones;

28 (N) An amount equal to any contribution made
29 to a job training project established pursuant to
30 the Tax Increment Allocation Redevelopment Act;

31 (O) An amount equal to those dividends
32 included in such total that were paid by a
33 corporation that conducts business operations in a
34 federally designated Foreign Trade Zone or Sub-Zone

1 and that is designated a High Impact Business
2 located in Illinois; provided that dividends
3 eligible for the deduction provided in subparagraph
4 (M) of paragraph (2) of this subsection shall not be
5 eligible for the deduction provided under this
6 subparagraph (O);

7 (P) An amount equal to the amount of the
8 deduction used to compute the federal income tax
9 credit for restoration of substantial amounts held
10 under claim of right for the taxable year pursuant
11 to Section 1341 of the Internal Revenue Code of
12 1986; and

13 (Q) For taxable year 1999 and thereafter, an
14 amount equal to the amount of any (i) distributions,
15 to the extent includible in gross income for federal
16 income tax purposes, made to the taxpayer because of
17 his or her status as a victim of persecution for
18 racial or religious reasons by Nazi Germany or any
19 other Axis regime or as an heir of the victim and
20 (ii) items of income, to the extent includible in
21 gross income for federal income tax purposes,
22 attributable to, derived from or in any way related
23 to assets stolen from, hidden from, or otherwise
24 lost to a victim of persecution for racial or
25 religious reasons by Nazi Germany or any other Axis
26 regime immediately prior to, during, and immediately
27 after World War II, including, but not limited to,
28 interest on the proceeds receivable as insurance
29 under policies issued to a victim of persecution for
30 racial or religious reasons by Nazi Germany or any
31 other Axis regime by European insurance companies
32 immediately prior to and during World War II;
33 provided, however, this subtraction from federal
34 adjusted gross income does not apply to assets

1 acquired with such assets or with the proceeds from
2 the sale of such assets; provided, further, this
3 paragraph shall only apply to a taxpayer who was the
4 first recipient of such assets after their recovery
5 and who is a victim of persecution for racial or
6 religious reasons by Nazi Germany or any other Axis
7 regime or as an heir of the victim. The amount of
8 and the eligibility for any public assistance,
9 benefit, or similar entitlement is not affected by
10 the inclusion of items (i) and (ii) of this
11 paragraph in gross income for federal income tax
12 purposes. This paragraph is exempt from the
13 provisions of Section 250.

14 (3) Limitation. The amount of any modification
15 otherwise required under this subsection shall, under
16 regulations prescribed by the Department, be adjusted by
17 any amounts included therein which were properly paid,
18 credited, or required to be distributed, or permanently
19 set aside for charitable purposes pursuant to Internal
20 Revenue Code Section 642(c) during the taxable year.

21 (d) Partnerships.

22 (1) In general. In the case of a partnership, base
23 income means an amount equal to the taxpayer's taxable
24 income for the taxable year as modified by paragraph (2).

25 (2) Modifications. The taxable income referred to
26 in paragraph (1) shall be modified by adding thereto the
27 sum of the following amounts:

28 (A) An amount equal to all amounts paid or
29 accrued to the taxpayer as interest or dividends
30 during the taxable year to the extent excluded from
31 gross income in the computation of taxable income;

32 (B) An amount equal to the amount of tax
33 imposed by this Act to the extent deducted from
34 gross income for the taxable year;

1 (C) The amount of deductions allowed to the
2 partnership pursuant to Section 707 (c) of the
3 Internal Revenue Code in calculating its taxable
4 income; and

5 (D) An amount equal to the amount of the
6 capital gain deduction allowable under the Internal
7 Revenue Code, to the extent deducted from gross
8 income in the computation of taxable income;

9 and by deducting from the total so obtained the following
10 amounts:

11 (E) The valuation limitation amount;

12 (F) An amount equal to the amount of any tax
13 imposed by this Act which was refunded to the
14 taxpayer and included in such total for the taxable
15 year;

16 (G) An amount equal to all amounts included in
17 taxable income as modified by subparagraphs (A),
18 (B), (C) and (D) which are exempt from taxation by
19 this State either by reason of its statutes or
20 Constitution or by reason of the Constitution,
21 treaties or statutes of the United States; provided
22 that, in the case of any statute of this State that
23 exempts income derived from bonds or other
24 obligations from the tax imposed under this Act, the
25 amount exempted shall be the interest net of bond
26 premium amortization;

27 (H) Any income of the partnership which
28 constitutes personal service income as defined in
29 Section 1348 (b) (1) of the Internal Revenue Code
30 (as in effect December 31, 1981) or a reasonable
31 allowance for compensation paid or accrued for
32 services rendered by partners to the partnership,
33 whichever is greater;

34 (I) An amount equal to all amounts of income

1 distributable to an entity subject to the Personal
2 Property Tax Replacement Income Tax imposed by
3 subsections (c) and (d) of Section 201 of this Act
4 including amounts distributable to organizations
5 exempt from federal income tax by reason of Section
6 501(a) of the Internal Revenue Code;

7 (J) With the exception of any amounts
8 subtracted under subparagraph (G), an amount equal
9 to the sum of all amounts disallowed as deductions
10 by (i) Sections 171(a) (2), and 265(2) of the
11 Internal Revenue Code of 1954, as now or hereafter
12 amended, and all amounts of expenses allocable to
13 interest and disallowed as deductions by Section
14 265(1) of the Internal Revenue Code, as now or
15 hereafter amended; and (ii) for taxable years ending
16 on or after August 13, 1999, Sections 171(a)(2),
17 265, 280C, and 832(b)(5)(B)(i) of the Internal
18 Revenue Code; the provisions of this subparagraph
19 are exempt from the provisions of Section 250;

20 (K) An amount equal to those dividends
21 included in such total which were paid by a
22 corporation which conducts business operations in an
23 Enterprise Zone or zones created under the Illinois
24 Enterprise Zone Act, enacted by the 82nd General
25 Assembly, and which does not conduct such operations
26 other than in an Enterprise Zone or Zones;

27 (L) An amount equal to any contribution made
28 to a job training project established pursuant to
29 the Real Property Tax Increment Allocation
30 Redevelopment Act;

31 (M) An amount equal to those dividends
32 included in such total that were paid by a
33 corporation that conducts business operations in a
34 federally designated Foreign Trade Zone or Sub-Zone

1 and that is designated a High Impact Business
2 located in Illinois; provided that dividends
3 eligible for the deduction provided in subparagraph
4 (K) of paragraph (2) of this subsection shall not be
5 eligible for the deduction provided under this
6 subparagraph (M); and

7 (N) An amount equal to the amount of the
8 deduction used to compute the federal income tax
9 credit for restoration of substantial amounts held
10 under claim of right for the taxable year pursuant
11 to Section 1341 of the Internal Revenue Code of
12 1986.

13 (e) Gross income; adjusted gross income; taxable income.

14 (1) In general. Subject to the provisions of
15 paragraph (2) and subsection (b) (3), for purposes of
16 this Section and Section 803(e), a taxpayer's gross
17 income, adjusted gross income, or taxable income for the
18 taxable year shall mean the amount of gross income,
19 adjusted gross income or taxable income properly
20 reportable for federal income tax purposes for the
21 taxable year under the provisions of the Internal Revenue
22 Code. Taxable income may be less than zero. However, for
23 taxable years ending on or after December 31, 1986, net
24 operating loss carryforwards from taxable years ending
25 prior to December 31, 1986, may not exceed the sum of
26 federal taxable income for the taxable year before net
27 operating loss deduction, plus the excess of addition
28 modifications over subtraction modifications for the
29 taxable year. For taxable years ending prior to December
30 31, 1986, taxable income may never be an amount in excess
31 of the net operating loss for the taxable year as defined
32 in subsections (c) and (d) of Section 172 of the Internal
33 Revenue Code, provided that when taxable income of a
34 corporation (other than a Subchapter S corporation),

1 trust, or estate is less than zero and addition
2 modifications, other than those provided by subparagraph
3 (E) of paragraph (2) of subsection (b) for corporations
4 or subparagraph (E) of paragraph (2) of subsection (c)
5 for trusts and estates, exceed subtraction modifications,
6 an addition modification must be made under those
7 subparagraphs for any other taxable year to which the
8 taxable income less than zero (net operating loss) is
9 applied under Section 172 of the Internal Revenue Code or
10 under subparagraph (E) of paragraph (2) of this
11 subsection (e) applied in conjunction with Section 172 of
12 the Internal Revenue Code.

13 (2) Special rule. For purposes of paragraph (1) of
14 this subsection, the taxable income properly reportable
15 for federal income tax purposes shall mean:

16 (A) Certain life insurance companies. In the
17 case of a life insurance company subject to the tax
18 imposed by Section 801 of the Internal Revenue Code,
19 life insurance company taxable income, plus the
20 amount of distribution from pre-1984 policyholder
21 surplus accounts as calculated under Section 815a of
22 the Internal Revenue Code;

23 (B) Certain other insurance companies. In the
24 case of mutual insurance companies subject to the
25 tax imposed by Section 831 of the Internal Revenue
26 Code, insurance company taxable income;

27 (C) Regulated investment companies. In the
28 case of a regulated investment company subject to
29 the tax imposed by Section 852 of the Internal
30 Revenue Code, investment company taxable income;

31 (D) Real estate investment trusts. In the
32 case of a real estate investment trust subject to
33 the tax imposed by Section 857 of the Internal
34 Revenue Code, real estate investment trust taxable

1 income;

2 (E) Consolidated corporations. In the case of
3 a corporation which is a member of an affiliated
4 group of corporations filing a consolidated income
5 tax return for the taxable year for federal income
6 tax purposes, taxable income determined as if such
7 corporation had filed a separate return for federal
8 income tax purposes for the taxable year and each
9 preceding taxable year for which it was a member of
10 an affiliated group. For purposes of this
11 subparagraph, the taxpayer's separate taxable income
12 shall be determined as if the election provided by
13 Section 243(b) (2) of the Internal Revenue Code had
14 been in effect for all such years;

15 (F) Cooperatives. In the case of a
16 cooperative corporation or association, the taxable
17 income of such organization determined in accordance
18 with the provisions of Section 1381 through 1388 of
19 the Internal Revenue Code;

20 (G) Subchapter S corporations. In the case
21 of: (i) a Subchapter S corporation for which there
22 is in effect an election for the taxable year under
23 Section 1362 of the Internal Revenue Code, the
24 taxable income of such corporation determined in
25 accordance with Section 1363(b) of the Internal
26 Revenue Code, except that taxable income shall take
27 into account those items which are required by
28 Section 1363(b)(1) of the Internal Revenue Code to
29 be separately stated; and (ii) a Subchapter S
30 corporation for which there is in effect a federal
31 election to opt out of the provisions of the
32 Subchapter S Revision Act of 1982 and have applied
33 instead the prior federal Subchapter S rules as in
34 effect on July 1, 1982, the taxable income of such

1 corporation determined in accordance with the
2 federal Subchapter S rules as in effect on July 1,
3 1982; and

4 (H) Partnerships. In the case of a
5 partnership, taxable income determined in accordance
6 with Section 703 of the Internal Revenue Code,
7 except that taxable income shall take into account
8 those items which are required by Section 703(a)(1)
9 to be separately stated but which would be taken
10 into account by an individual in calculating his
11 taxable income.

12 (f) Valuation limitation amount.

13 (1) In general. The valuation limitation amount
14 referred to in subsections (a) (2) (G), (c) (2) (I) and
15 (d)(2) (E) is an amount equal to:

16 (A) The sum of the pre-August 1, 1969
17 appreciation amounts (to the extent consisting of
18 gain reportable under the provisions of Section 1245
19 or 1250 of the Internal Revenue Code) for all
20 property in respect of which such gain was reported
21 for the taxable year; plus

22 (B) The lesser of (i) the sum of the
23 pre-August 1, 1969 appreciation amounts (to the
24 extent consisting of capital gain) for all property
25 in respect of which such gain was reported for
26 federal income tax purposes for the taxable year, or
27 (ii) the net capital gain for the taxable year,
28 reduced in either case by any amount of such gain
29 included in the amount determined under subsection
30 (a) (2) (F) or (c) (2) (H).

31 (2) Pre-August 1, 1969 appreciation amount.

32 (A) If the fair market value of property
33 referred to in paragraph (1) was readily
34 ascertainable on August 1, 1969, the pre-August 1,

1 1969 appreciation amount for such property is the
2 lesser of (i) the excess of such fair market value
3 over the taxpayer's basis (for determining gain) for
4 such property on that date (determined under the
5 Internal Revenue Code as in effect on that date), or
6 (ii) the total gain realized and reportable for
7 federal income tax purposes in respect of the sale,
8 exchange or other disposition of such property.

9 (B) If the fair market value of property
10 referred to in paragraph (1) was not readily
11 ascertainable on August 1, 1969, the pre-August 1,
12 1969 appreciation amount for such property is that
13 amount which bears the same ratio to the total gain
14 reported in respect of the property for federal
15 income tax purposes for the taxable year, as the
16 number of full calendar months in that part of the
17 taxpayer's holding period for the property ending
18 July 31, 1969 bears to the number of full calendar
19 months in the taxpayer's entire holding period for
20 the property.

21 (C) The Department shall prescribe such
22 regulations as may be necessary to carry out the
23 purposes of this paragraph.

24 (g) Double deductions. Unless specifically provided
25 otherwise, nothing in this Section shall permit the same item
26 to be deducted more than once.

27 (h) Legislative intention. Except as expressly provided
28 by this Section there shall be no modifications or
29 limitations on the amounts of income, gain, loss or deduction
30 taken into account in determining gross income, adjusted
31 gross income or taxable income for federal income tax
32 purposes for the taxable year, or in the amount of such items
33 entering into the computation of base income and net income

1 under this Act for such taxable year, whether in respect of
2 property values as of August 1, 1969 or otherwise.

3 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;
4 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
5 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
6 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;
7 revised 1-15-01.)

8 Section 99. Effective date. This Act takes effect upon
9 becoming law.